


Policy Combinations for Inclusive Globalization



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Last year U.S. trade policy changed direction after Mr. Donald Trump took presidential office. The new policy aimed at breaking down unfair trade barriers and focusing on bilateral negotiation. The U.S. started talks for revision of trade agreements and made it clear that it would not follow WTO decisions in certain cases. This policy change is based on U.S. voters' discontent regarding globalization. The other presidential candidates, former Secretary Hillary Clinton and Bernie Sanders, also promised more or less changes in trade policy based on protectionism. Resistance against globalization has become prevalent in an increasing number of countries. Some of these have undergone political regime change and trade policy change, and other countries without regime change have also come under the pressure of anti-globalization movements.

For a long time, freer trade was respected as the best policy among the majority of economists. Globalization leads to substantial losses for certain people, but the overall gains outweigh this loss and thus opening trade was perceived as a good policy for the domestic economy as a whole. However, the increase in inequality due to international trade and

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insufficient redistribution for losers has escalated discontent and political pressure. This phenomenon illustrates the importance of "inclusive" globalization. Even if trade liberalization policy brings more gain than loss, policies for redistributing trade gains, reducing inequality, and minimizing trade adjustment costs must accompany the globalization process to alleviate resistance and make economic growth sustainable.

Recent papers have worked to correctly measure the loss from trade (especially in the case of trade with China), and found an increase in unemployment caused by such trade. Other papers pointed to other routes that connect globalization and its losers. Domestic firms lose their portion of the domestic market due to competition with foreign goods. Competition leads to more R&D investment and increase in productivity but it also increases wage inequality when the demand for skilled workers increases. Firms with advanced technology screen their workers more stringently to meet the global standard and this results in inequality between workers in different firms.

To make globalization inclusive, it is critical to implement a wide combination of policies. The effect of globalization on the economy is similar to the effect that technology development has on the economy. They make the overall economy better, but there are winners and losers. Long-lasting structural transformation occurs and less skilled workers are more vulnerable to this. As a result, the political pressure against globalization policies increases. Therefore, labor policy that compensates for the cost of coping with globalization must be accompanied with other policies. The biggest associated cost is unemployment, and enhancing labor mobility is crucial to resolve this problem. Such job mobility cannot be achieved only with trade-related policies.

Active labor market programs (ALMPs) are targeted to displaced workers and help them find new jobs easily in the same or other industries. ALMPs include early and frequent engagement, training program to fill the skills gap, help from private firms to meet their job needs, job search assistance, and so on. Passive policies complement ALMPs through bringing protection to the unemployed and support for their job training or job search. Employment protection or minimum wage legislation also should be considered as critical social protection against the costs of adapting to globalization.

Enhancing labor mobility between regions is also important to relieve shocks, especially for the manufacturing industry. Each plant is deeply connected to the city where it based on. When a plant is closed due to changes created by globalization, the shock caused to the

host city is massive. There are two solutions for this problem: moving laborers out of the city, or creating new jobs in the city. The former can be achieved through the supply of more housing and transportation infrastructure. The latter refers to offering benefits to attract private firms or moving public institutions to create jobs. This category of policies include the labor market, urban planning, and conflict control between regions. These may seem remotely separated from trade and globalization, but become more and more important to make globalization inclusive.

Conventional trade-related policy is also helpful. Many countries have trade-specific support programs targeted to workers displaced by trade. The U.S.TAA (Trade Adjustment Assistance) and EGAF (European Globalization Adjustment Fund) are well-known examples. These workers need more job training because their unemployment is the result of structural transformation, as in the case of technology development. Targeted programs can be more effective to relieve adjustment costs in theory, but empirical evaluations of these programs have yielded mixed results. The effect of trade can be direct or indirect, making it difficult to identify those who are laid off due to trade and those who benefit from targeted programs. Therefore, trade-specific support programs must be accompanied with the general labor market policies above to enhance their effectiveness.

A well-designed industrial policy reduces inequality between firms and alleviates the direct shock resulting from structural transformation. International trade has a positive effect on big businesses but a negative effect on small firms. This process deepens inequality between firms. Moreover, big firms are slow to create new jobs. This negative effect of trade can be compensated for through export from middle-sized or small businesses. Boosting exports of small businesses distributes the gains of globalization more equally and creates more stable jobs within the manufacturing industry. Both results are effective toward the promotion of inclusive globalization.

Finally, more correct and detailed data should be prepared for deeper research and other policymaking decisions. Many recent papers about inequality begin with new data from tax authorities. These are much different with previous household survey data and particularly better for analysis of the top 1 percentile. This tax authority data should be offered on a more open basis with anonymity to researchers, and household survey data should be provided in more in detail together with industry information. In addition, more detailed data on each firm or plant would also be helpful. **KIEP**